



**Mission Drift in Microfinance: Empirical
Evidence from Ethiopia**

By

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Acronyms

ACSI	Amhara Credit & Savings Institution
ADCSI	Addis Credit & Saving Institution
AEMFI	Association of Ethiopian Microfinance Institution
BG MFI	Buussa Gonofaa Microfinance Institution
CBB	Construction and Business Bank
CBE	Commercial Bank of Ethiopia
DBE	Development Bank of Ethiopia
DECSI	Dedebit Credit & Savings Institution
MFI	Microfinance Institution
OCSSCO	Oromia Credit & Savings Share Company
NBE	National Bank of Ethiopia
PEACE MFI	Poverty Eradication & Community Empowerment
SFPI	Specialized Financial & Promotional Institution

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Abstract

This thesis attempted to examine one of the most important recently emerging issues, mission drift of microfinance institutions. The study is undertaken in the Ethiopian context where the main development concern of MFIs has been the poverty-alleviation objective and economic empowerment of poor households including women. In undertaking the mission drift analysis, data has been collected from the top ten MFIs, which also happen to be older generation MFIs, in the country for the years from 2005 to 2013. The average loan size and percent of women borrowers have been tested against sustainability indicators and with other variables. The descriptive statistics and the panel econometrics regression results using fixed effect estimation technique reveals that average loan size and proportion of women borrowers have monotonously increased. Still the maximum loan per borrower on average is less than USD 965 and nearly 52% clients are female borrowers. Virtually all MFIs are still concentrating in rural areas and their lending methodology is mostly group lending. As such there is no danger of mission drift verified in the analysis. As this is a modest first trial it is commendable that further in-depth studies be initiated to verify comprehensive findings and policy recommendations.

CERTIFICATE OF ORIGINALITY

This is to certify that the project titled “Mission Drift of Microfinance: Empirical Evidence from Ethiopia” is an original work of the student and is being submitted in partial fulfilment for the award of the Master’s Degree in Business Administration of Indira Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/Institution for the fulfilment of the requirement of a course of study.

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Chapter 1: Introduction

1.1. Background of the Study

The provision of financial services is undoubtedly one of the most important requirements for any society since time immemorial. People living in poverty, like everyone else, need a diverse range of financial services to start, run and expand their income and employment generating ventures and/or businesses, build assets, smooth consumption, and manage risks¹. Poor people were, to a large extent, excluded from financial services until microfinance institutions (MFIs) emerged.

The demand for financial services in Ethiopia was in the past largely met through the delivery of financial services and products by the formal banks or commercial banks and traditional money lenders. The formal banks mostly offer their services to what they call “credit worthy clients” and the low income clients like elsewhere in the world have been mostly considered to be “too risky”, “too costly” and “unprofitable”. As a result, lack of access to bank financing on suitable terms and conditions has been one major constraint facing low income clients including poor rural households, informal sector operators and micro and small entrepreneurs’ (MSEs) including women entrepreneurs. Most of such clients are either forced to start their business without any bank loan mainly from their own sources and relatives support or through loans facilitated by traditional money lenders which charge exorbitant interest rates.

According to one survey on credit guarantee scheme for small and medium enterprises (SMEs) in Ethiopia, several reasons have been cited for not borrowing from banks including:

- Lack of collateral,
- Lack of own premises,

- Lengthy process to approve loan applications causing discomfort among potential borrowers,
- Lack of capacity to prepare bankable business plan,
- Banks' frequent practice of undervaluing collateral,
- A mismatch between the requirement of MSEs and the terms normally offered by banks, and
- Bureaucratic and at times non-transparent administrative regulations and procedures.

As a result of the above constraints, it is claimed that several SMEs covered in the survey noted that their credit need to expand activities, buy new equipment, extend premises, and build up working capital goes unsatisfied.

Access to financing from banks has improved with introduction of free market economic policy in Ethiopia. Prior to the promulgation of Proclamation No. 84/1994 i.e. on the Licensing and Supervision of Banking Business, that allowed for the establishment of private financial institution, there were only three public banks providing financial services i.e. commercial bank of Ethiopia (CBE), construction and business bank (CBB) and development bank of Ethiopia (DBE). While CBE has been fully catering for commercial banking services, CBB in addition to its traditional housing mortgage banking is also structured as any other commercial bank. DBE's main concern has been on development finance mostly for agricultural and industrial projects.

Following the liberalization of banking operations in Ethiopia in 1994, which ended the state monopoly pursued by the former command policy oriented military regime that ruled for almost 17 years, 14 private commercial banks have become operational. However, the commercial banks still do not make distinction between low income clients and large-scale enterprises. It is indicated that both categories of borrowers are subject to the same lending criteria since there is

no lack of demand for credit from the banks' perspective. It is also true that there is no compulsion on commercial banks to address the peculiar needs of low income clients.

Clearly, the emergence of the microfinance mechanism in Ethiopia just like elsewhere in the world is mainly associated with the “inability and unwillingness” of the formal financial sector to serve the increasing needs of low-income clients. Frank (2001) noted that the microfinance industry evolved to include MFIs operating under a wide range of legal structures, including a growing number of RFIs (regulated financial institutions) in addition to traditional nongovernmental organizations (NGOs), though the legal and regulatory framework in Ethiopia obliges MFIs to register as business companies owned by Ethiopian citizens which, therefore, prohibits NGOs from directly engaging in the rendering of microfinance services.

It is asserted that what has generally come to be widely known as conventional microfinance is often associated with the pioneering experiment in mid 1970s by Dr Muhammad Yunus¹, who was then Professor of Economics in the USA and subsequently became the founder of Bangladesh's Grameen Bank (Harper, 2003). The genesis of Grameen Bank operation, among others, revamped the tradition of financial service from branch based banking concentrated in urban areas to a typical village level small scale credit service often under a tree or door to door service or in traditional rural shelters. Since its inception, the microfinance program is offered in a great variety and number and millions of people have been empowered to access virtually all banking services through microfinance programs.

Consequently, the microfinance mechanism is seen as the most potent channel for the future of banking particularly in countries which have very small coverage of bank branches both geographically as well as in terms of number of branches per capita.

¹Muhammad Yunus and the Grameen Bank are awarded Nobel Peace Prize in 2006 “for their efforts to create economic and social development from below.” (Sengupta&Aubuchon, 2008).

It is indicated that there are many types of MFIs depending, among others, on structure, function or philosophy and MFI schemes were initiated to meet different objectives. As of today, however, a main goal of many MFIs is to provide sustainable micro finance facilities to the poor to facilitate income generation and reduce poverty (Baumann, 2001). The usual rhetoric behind this argument is that the so-called “poor” or “low income people” or “informal business operators” lack access to typical financial services like credit and savings facilities on sustainable basis and appropriate terms and conditions while it is also highlighted that such microfinance clients are capable of saving and lifting themselves out of poverty if given access to financial services². It is against this background that outreach consideration with a modest size of financing has shaped and dominated the original mission in the business of MFIs throughout the world.

According to a widespread view, the uncertainty of subsidies because of the liberalization and adjustment drives that impacted dwindling government and donor supports to the budding microfinance models in the 1980s led to, among others, an increasing concern for sustainability considerations and the policy of subsidized credit came under a slow but increasing attack in particular for the institutions trying to replicate Grameen Bank model. Without donors’ support the pioneer initiatives seemed unable to focus on the very poor and at the same time self-finance an expansion of their services to reaching as many clients as possible.

In due course, modest sustainability evidences mounted of the improved performance of financial service deliveries to the poor as the poor were willing and able to pay interest rates that allowed MFIs to cover their costs so as to guarantee permanent service delivery. These two

²“About Microfinance” (About Microfinance _ Kiva.htm) is retrieved from <http://www.kiva.org/about/microfinance>

features - high repayment and cost-recovery interest rates - permitted some MFIs to achieve long-term sustainability and reach large numbers of clients.³

The common bottom lines of the poverty reduction mission of microfinance institutions (MFIs) nowadays, therefore, include to serve the un-bankable poor clients and to become financially self-reliant. In actual practice, however, many observers are concerned about the likely trade-off between these two dual objectives. Concern has also emerged whether an MFI drift from its customary objective of providing financial services to the un-bankable poor, micro-enterprises and low-income people in order to fulfill the financial sustainability or profit motive.

“Mission Drift” explores whether a microfinance program with social mission drifts away from this original mission during rapid scaling up process which appears to have received increased attention for an MFI to be sustainable. Mission drift assessment is, therefore, of immense importance particularly to microfinance programs with social missions. It is also argued that the methodology contributes to a better understanding of implications of scaling up process on the social mission of microfinance programs.

As regards previous studies undertaken on mission drift, various studies have been conducted in several countries. It appears that there are modest finding that support and challenge the claims that MFIs experience mission drift as they increasingly cater to customers who are better off than their original customers. It is also true that the debate on mission drift has remained to be unsettled.

Further, a number of studies do seem to have methodological weakness of not addressing endogeneity and those few rigorous studies also have mixed findings. Resolving such debate is clearly important for many stakeholders such as policy makers like the National Bank of

³ “The History of Microfinance” in “The History of Microfinance _ Global Envision.htm” is retrieved from <http://www.globalenvision.org/library/4/1051>

Ethiopia, the MFIs Board of Directors and Senior Management Teams, academicians and researchers.

1.2. Statement of the Problem

As highlighted in the background of the study, there is a debate on whether mission drift occurs in MFIs or not. Only a handful of studies have rigorously attempted to address this issue, but they have come up with mixed results. Some of the first papers found no convincing evidence to support the claim that the push toward commercialization leads MFIs' missions to drift and supported the position that a more profit-oriented microfinance industry is better able to serve the poorest (Gonzalez-Vega et al.1997; Christen 2001; Campion, Dunn and Gordon 2001; Littlefield, Morduch, and Hashemi 2003). Of late, Hishigsuren (2007) finds no significant mission drift when measured by depth, quality and scope of outreach to poor clients.

Cull et al, (2007) also found no mission drift in the strict sense of the word and their evidence shows the possibility of earning profits while serving the poor. However, in the case of larger and older micro-banks they concluded that a trade-off emerges between profitability and serving the poorest. The finding of Cull, Demirguc-Kunt, and Morduch (2007) tell us there is no mission drift at the basic regression, but when interaction terms are introduced (interacting profit measures with MFIs size and age), mission drift is set to arise. The implication of this is that it is better to check the effect of interaction terms to clearly identify where mission drift occurs. Basic regressions may hide such hidden facts.

Mersland and Strøm (2010) investigated mission drift using average loan size as a main proxy and the MFIs lending methodology, main market, and gender bias as further mission drift measures. They employed a large data set of rated, multi-country MFIs spanning 11 years, and performed panel data estimations with instruments. Regressions show that an increase in average

profit and average cost tends to increase average loan and the other drift measures. The commend that more focus should be given to cost efficiency in the MFI. Finding no higher tendency toward increased individual loans or urban customers, they emphasized more on MFIs' cost efficiency and it is claimed that an increase in average profit and average cost tends to boost average loan size and positively affect other mission drift measures.

In contrast, Paxton, Graham, and Thraen (2000) argue that there is indeed a trade-off between serving the poorest clients and being financially viable, since transaction costs associated with smaller loans are comparatively high. Campion and White (1999), Rhyne (2001) and Campion, Dunn and Gordon (2001) report that formalized MFIs have already started avoiding risky innovations and less attractive markets in favor of immediate profitability and a safer portfolio. Thus, more competitive and formalized microfinance lenders tend to move up market to wealthier clients. This indeed raises the concerns for mission drift as Woller, Dunford and Woodworth (1999)note that as soon as an MFI leaves the poorer customers, mission drift occurs. Kar (2012) tried to do research on mission drift of MFIs using large data sets and addressing endogeneity concerns. His study is clearly good that most of the earlier studies that relied on small cross section data and failed to address the problem of endogeneity. Enodgenity is expected in the relationship between MFIs profitability and their depth of outreach.

While coming to Ethiopia, there is no comprehensive study that attempted to address the issue of mission drift in MFIs. As pointed out earlier, some of the good attempts are by Ejigu (2009) and Vashisht, Karamjeet & Ejigu(2011). Ejigu's (2009) paper used univariate tests like ANOVA to compare performance difference between Ethiopian MFIs with respect to scale of outreach& correlation statistics to check whether the relationship between depth of outreach and sustainability measures indicate mission drift or not. As a univariate technique, this study suffers

from the lack of control variables and hence the results are not conclusive. The study by Vashisht, Karamjeet & Ejigu (2011) attempted to address the mission drift issue using panel data regression model. This study is a bit advanced, but still the simultaneity (endogeneity) bias in the relationship between depth of outreach and sustainability is not addressed. Only static panel data models are used which is not capable of addressing this endogeneity problem. Other papers done in the mission drift and related topics in Ethiopia are descriptive in nature and don't warrant a discussion here.⁴

Reliance will be made on small data sets by focusing only on Ethiopian MFIs panel data sets, because large cross country based panel data sets may hide important details when it comes to one country case. Simply the place and context of the study matters and it is difficult to easily extend the global studies to the Ethiopian reality. .

On the practical level, depth of outreach indicators for the global and even Ethiopian MFIs show bad trends. For instance Hashemi& Rosenberg, (2006) are of the view that MFIs fails to reach the poorest of the poor. Hishigsuren, (2004) is of the view that MFIs have no clear targeting rules. In Ethiopia, the review done by Ejigu (2012) shows that women targeting is less, 38.4%. On the whole the current research is needed at both theoretical and practical level.

1.3. Objective of the Study

The objective of this study is to explore whether increased profit orientation & scaling up strategies negatively affect MFIs' goal of serving the poorest over time i.e. whether there is mission drift in Ethiopian MFIs overtime.

Specifically, the study tries to achieve the following objectives:

⁴The interested reader can refer to Vashisht, Karamjeet&Ejigu (2011) for the review of other Ethiopian based papers on the issue of outreach and sustainability and mission drift literature.

- To assess the depth of outreach, profitability, scaling up and lending methods dynamics of Ethiopian MFIs overtime
- To explore whether depth of outreach and profitability of MFIs vary by scaling up variables and different lending methods
- To examine whether there is mission drift in Ethiopian MFIs i.e. whether increased profit and scaling up motives are responsible for decline in depth of outreach
- To examine whether the basic mission drift results vary by MFIs scaling up variables & different lending methods.

1.4. Significance of the study

This study is clear of much importance to policy making, practice and research. At a policy level, the proof that mission drift exist indicate the need to segment the MFIs market as those that cater for the poorest of the poor and those that cater to the better of clients. Different regulatory standards may be needed if the MFIs is to be segmented like this. The current one-size-fit all regulation by the National Bank of Ethiopia may not be needed. Rather a separate regulator for social oriented MFIs may be need. Possibly NGOs could have been allowed to provide MFIs services to the poor. If the feared mission drift is not observed, the current format of MFIs may continue as it is.

For practice, if mission drift is found, it affects the very operation of target market of MFIs. It will force management to devise a proper mission and vision to reach the target market. The social oriented MFIs should deliver small loan size, charge affordable interest rate, focus more on women borrowers, focus more on rural clients, shall use more group lending methodology that doesn't require formal collateral like the banking system etc. On the opposite commercial oriented MFIs should increase their loan size, charge market interest rates, focus on men clients

that live in urban areas and adopt individual lending methods based on formal collateral like the commercial banks. Thus on the whole the proof of mission drift will change the strategic and operational focus on the segmented MFIs market players. If such feared mission drift is not supported by the data, average strategies that cater to both markets can be followed by the managers of MFIs.

The relevance of this research for initiating other research insights is many. One it shows on how to test for endogeneity bias that is expected in the relationship between depth of outreach and sustainability. Second, it explicitly tests mission drift that is expected from MFIs scaling up motives. Third, it shows on whether the basic mission drift results are confounded by scaling up and lending methods used by the MFIs. Such interaction effects regression helps to show the context under which mission drift will exist and its extent. All these new insights will spark another round of research in other settings and environments which leads to the global movements towards checking up this issue.

1.5. Scope of the study

The development of MFIs in Ethiopia is a recent phenomenon. The proclamation by the National Bank of Ethiopia (NBE), i.e. Proclamation No. 40/1996, which provides for the licensing and supervision of the business of MFIs, was issued in July 1996. Since the issuance of this proclamation, about 31 MFIs have legally registered and started delivering microfinance services mostly to poor rural households and informal sector operators in urban centers that weren't as such served by the formal banks.

Although the legal framework governing MFIs stipulates that MFIs should form as a share company owned fully by Ethiopian nationals, one major issue has been the mobilization of shareholders for the prospective MFIs. Careful examination of the current ownership structure of

MFIs in Ethiopia shows that the ownership structure is diverse ranging from the regional government, community based organizations like ShahsemneIdirs, and NGOs backed individuals. Though NGOs cannot directly undertake the business of microfinance, nominal individual shareholders associated with NGOs may hold shares through purchases facilitated with resource contributed or assisted by international NGOs and donors.

This study only tests the mission drift phenomenon in MFIs by using MFIs profitability and scaling up measures interacted by lending methods. Regarding sample size, the rule is the sample size should be fairly large to make good estimation.

1.6. Limitations of the study

The study focus only on Ethiopian data and the sample size may not be large enough to draw valid conclusion. Large cross-country data sets may be needed to test this hypothesis in much conclusive way. Furthermore the sample is taken based on the simple criteria of data availability for fairly long period. Hence the sample will not fully represent even the whole Ethiopian MFIs industry i.e. currently 31 fully operational MFIs. Thirdly, the measures used for depth of outreach i.e. average loan size and the percentage of women borrowers may not correctly measure reaching the poorest of the poor clients due to various reasons such as progressive lending, cross subsidizations, gradual mission differences even between MFIs, different purpose of loans, huge capacity differences in capital and number of branches, regional peculiarities, gender sensitivity differences in different parts of the country, etc. The implication of all these limitations is that the results shall be interpreted with caution.

1.7. Organization of the Study

The study is structured to have five chapters. As shown in the previous sections, Chapter one presents the background of the study, statement of the problem, objective of the study,

significance, scope and limitation of the study. Chapter two covers the review of the related literature that address the concepts of mission drift and its measurement, the results of various theoretical and empirical papers on the mission drift literature and the summary of the literature review indicating the gap in the literature and how the current study will try its best to address this gap. Chapter three deals with the research methodology and in gross terms this chapter focus on data source and samples, econometric model (specifically panel data models using instruments) and the operational definition adopted for both the dependent and explanatory variables in the mission drift regression.

The final two chapters of the thesis consist of Chapters four and five. Chapter four covers “Results and Discussion” that deals with the descriptive statistics of the major variables, some cross tabulation and univariate tests results and finally the panel instrumental variable regression results. We will first check the various assumptions and then start to interpret the results. The final part of this chapter will discuss the findings in line with prior literature and our own hypothesis. The last, Chapter five deals with the conclusions, policy implication recommendations and suggestion for further research.

Chapter 2: Review of Literature

2.1. Theoretical and Conceptual Underpinning of Mission Drift

Access to finance has always been at the centre stage of economic growth and development, but its limited supply through formal financial services coupled with lack of opportunities to millions of poor people remains to be a concern for many developing countries. For instance, the majority of Ethiopians have never entered a bank and the commercial banks are mostly focusing on major cities and rural towns. In order to enhance the access to financial services, the Ethiopian government has implemented a banking sector liberalization policy.

Ever since the conventional microfinance was initiated in the mid-1970s in Bangladesh, microfinance institutions (MFIs) have made it possible for low-income households (poor individuals and groups) to access institutional financial services, while poor people who need financial resources are still largely denied by commercial banks.

Microfinance, largely regarded in the development arena as a powerful tool in combating poverty traces its etymological roots from two words⁵ that are “micro” and “finance” which imply provision of small credit. The concept, however, goes beyond the provision of small credit to the poor, according to Kiiru (2007). Christen (1997) defines microfinance as 'the means of providing a variety of financial services to the poor based on market-driven and commercial approaches'. This definition encompasses provision of other financial services such as savings, money transfers, payments, remittances, and micro insurance.

According to Christen (1997) quoted in Walet Okibo and Makanga (2014) microfinance is defined as means of providing a variety of financial services to the poor based on market-driven

⁵ Accessed from UK Essays available at <http://www.ukessays.com/essays/economics/the-defining-poverty-and-the-poor-economics-essay.php#ixzz3GrR15BTP>

and commercial approaches and further notes that microfinance has in recent times become a buzz word in every corner of the world as well as in the formulation of welfare programs by government

It is also true that the genesis of microfinance is associated with the alleviation of poverty including contributing to women empowerment especially in rural communities. The mission of MFIs, therefore, appears to be to deliver financial services to the un-bankable poor or low income clients. Kar (2010:1) notes that microfinance provides mostly-collateral-free capital and financial services to those excluded and deprived people, especially to women in rural areas of developing countries, who are economically active but didn't previously have access to such services.

Ledgerwood (1999) defines microfinance as financial service targeted to low income clients and `it appears that the term "microfinance," once associated almost exclusively with small-value loans to the poor, is increasingly used to refer to a broad array of products including payments, savings, and insurance tailored to meet the particular needs of low-income individuals.

In view of the poverty reduction strategy (PRS) paradigm at the turn of the century and in the context of the Millennium Development Goals (MDGs)⁶,the United Nations defined microfinance as basic financial service, like credit, savings and insurance, which give people an opportunity to borrow, save, invest and protect their families against risk (UN, 2005). Accordingly, six of the MDGs are believed to be directly related to the wider objectives of microfinance showing that microfinance can contribute significantly to the achievement of these development goals.

⁶The MDGs refer to the eight [international developmentgoals](#)⁶ that were established following the [Millennium Summit](#) of the [United Nations](#) in 2000 that was adopted as the [United Nations Millennium Declaration](#)

It has to be noted that the UN General Assembly in 1998 proclaimed 2005 the International Year of Microcredit to recognize microcredit's contribution to poverty alleviation while the Secretary General of the UN, Kofi Annan, who is also remembered to have played a decisive role in the launching of the MDGs made the following momentous remark in connection with the occasion of the International Year of Microcredit 2005 reiterating the significance of microfinance in poverty alleviation.

“The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.” (UNCDF, 2005)

Further it is also highlighted that the International Year of Microcredit 2005 underscored the importance of microfinance to alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs.

Generally speaking, providing small loans at affordable interest rates, focusing more on women loan clients, emphasizing operations in rural areas and adopting group based lending methodology were the original social missions of microfinance. Arguably, microfinance emerged and expanded through the generosity of donors and government subsidies. According to Armendáriz et al., (2012:8), subsidies may help MFIs to reach their social objective, namely that of offering financial services to a large number of poor clients who demand small average loan sized amounts which by nature involve high transaction costs.

Following Ledgerwood (1999), one may distinguish what came to be known as the “Minimalist” and “Integrated” Approaches to microfinance. The minimalist approach, which has resulted from the adoption of a business-oriented approach, considers the access by low-income individuals to

credit as the only piece missing for income and employment generation and, therefore, sees the provision of microcredit loans as a development strategy per se, while the integrated approach emphasizes the importance of providing not only credit but a wide range of financial services as well as nonfinancial services such as training and technical assistance to the poor in order to attack the structural causes of poverty by empowering participants to become enlightened entrepreneurs.

It has to be noted that a vast majority of MFIs still declare that poverty reduction is their prime objective. Armendáriz et al., (2012:3) note that donors' response to MFIs' poverty alleviation efforts has been generous and since their emergence MFIs worldwide have benefitted from millions of subsidies from local governments, multilateral aid agencies and, more recently, from socially responsible investors.

Notwithstanding the increased attention accorded to microfinance, its social objective per se seems to be not the only one objective which stakeholders particularly donors expect MFIs to attain. Specifically, a large number of donors have come to insist on MFIs reaching a so-called "double bottom line" objective: reaching the largest number of poor and becoming financially self-sustainable (Conning, 1999; Copestake, 2007).

Amidst the growing concern for poverty reduction as well as the sustainability obsession, over time, therefore, concerns over profitability and self-sustainability eventually prompted MFIs to adopt somewhat transformed missions, leading them to change the mix of borrowers and/or projects. It is also noted that to provide financial services to poor on continuing basis microfinance business needs to be sustainable.

The Consultative Group to Assist the Poorest (CGAP, 2010) for instance states that microfinance can pay for itself, and must do so if it is to reach very large numbers of poor households.

Makanga & Walter Okibo (2014) state that the overall message in this argument is that unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors. Further, the main underlying assumption in this argument is that microfinance is already good for the clients, and therefore what is really urgent is to intensify the financial service delivery on a sustainable basis.

Murdoch (2000) points out that this kind of enthusiasm for microfinance rests on an enticing “win-win” proposition that: Microfinance institutions that follow the principles of good banking will also be the ones that alleviate the most poverty. The assumption being that with good banking practices it is possible to cover costs and operate in a sustainable manner to continue serving clients and alleviating poverty. Kiiru, J.M. (2007:15) notes that the “win-win” situation both for the investor and the poor can be explained as follows: The investor in microfinance programs follows good banking practices with the possibility of some profit, while the poor continue to benefit by accessing reliable credit that is assumed to be beneficial to their welfare. They also highlight that supporters of the “win-win” proposition stress (mainly by assumption) that the ability to repay loans by the poor is a good indicator that whatever investments the poor make with their micro credit loans must be giving back profits.

According to Nawaz (2009) the preservation of this dual commitment of microfinance institutions to both social and commercial goals of poverty reduction and profitability whilst ensuring their progressive integration into the financial market and phasing out of subsidies is an intense topic of debate. The sustainability stresses the importance of being able to cover the cost of lending money out of the income generated from the outstanding loan portfolio and to reduce these costs as much as possible.

However, Nawaz (2009:1) also notes that “Once driven fundamentally by development concerns, most importantly higher incomes for the poor, many scholars increasingly argue that microfinance “success” has become measured against the success of microfinance institutions themselves, gauged by their progress toward achieving financial self-sufficiency; a shift Gary Woller describes as a move from a welfarist to an institutionist model of microfinance.

As discussed in the previous section, an “institutionist perspective” highlights microfinance as an innovation in applying “market solutions to social problems”, while the “welfarist” approach questions the increasingly “business-orientated commercialization of microfinance” to realise a mission of poverty reduction. It should be noted that overall ‘success’ of Microfinance appears to be judged on the basis of the financial sustainability of the MFI itself (Woller 1999:1). This financial sustainability not only comes directly through profit generation but via other benefits, for example, an investment in microfinance can provide large financial organisations the opportunity for low risk portfolio diversification in volatile economic times (Krauss & Walter 2009). Unlike the institutionist perspective, which emphasizes breadth of outreach, the welfarist perspective focuses on depth of outreach and supports practices that allow microfinance institutions to serve the very poor, often cited as the original goal of the microfinance movement (Christen 2001).

Mission drift, although yet an indistinct notion, is a major shifting away from those original commitments of MFIs due to such changed orientations and missions, including increased profit-motivation and/or scaling up (Mersland and Ström 2010; Hishigsuren 2007; Cull, Demirguc-Kunt and Morduch 2007; Schreiner 2002).

It is argued that, the microfinance movement like many popular mass movements is characterized both by widespread agreement on broad objectives and by multiple rifts on key

issues. It is claimed that the movement itself is driven by the shared commitment to provide credit for small enterprise formation and growth. It is also bound together by a common rhetoric of concern for the poor. This unity of commitment and rhetoric, however, masks a variety of philosophical approaches, types of institutions and borrowers, and delivery systems that shelter uneasily together under the big tent called “microfinance”.

Indeed one may cite several approaches and/or opposing views with respect to the best way to help the poor through access to financial services. Among such debatable issues has been and still is the “mission drift” of MFIs which tries to capture the occurrence of a trade-off the financial (sustainability and efficiency) and the outreach to the poorest clients i.e. a trade-off between the financial and social performance of microfinance programmes.

A critical look at the main guiding principles of MFIs nowadays reveals that generally two opposing paradigms—poverty lending (or, reduction) approach and financial sustainability (or, systems) approach—are central in running microfinance operations. Likewise, it is noted that in policy circles there has been a growing debate on operating principles of MFIs based on these two competing tenets. “Comparison is made of the two main approaches to financing the poor: the poverty lending approach, which promotes donor-funded credit for the poor, especially the poorest of the poor; and the financial systems approach, which advocates commercial microfinance for the economically active poor and other, subsidized and charitable nonfinancial methods of reducing poverty and creating jobs for the extremely poor. The primary goal of the two approaches to microfinance is similar—widespread financial services for the poor. The debate is on the means. However, the choice of means can limit the goals that can be reached.

Large-scale sustainable microfinance can be achieved only with a financial systems approach.”
(Robinson, 2001:2)

According to Kar (2010:252) mission drift implies a shifting away from the original promise of focusing more on women clients, loan clients in rural areas, and also on group-based lending methodology, which in general are the social commitments of MFIs. However, in one way or another the mission drift issue boils down to the age-old concern that relates to a possible trade-off between or mutual exclusion of two of the common bottom-lines of MFIs-financial performance (being financially sustainable) and social performance (meeting social commitments).

Use has been made of the term “Mission Drift” numerous and it seems that it is widely used in various areas including in ministries, charities, and businesses. It is indicated that mission drift has come to be a challenging issue to such nonprofit institution as faith based organizations and NGOs in which case it usually occurs when such organization’s finances are constrained and their leaders feel desperate to act even forcing them to “abandon” their mission without careful attention or “bend their principles to accept some help”. So mission drift is a term used to describe instances where an organization moves away from its mission, which in turn leads to a loss of the original reasons for their organizational establishment (Moore, 2000).

It is important to note that mission drift may also be examined in relation to the term "mission true", which is used to ascertain whether an institution has remained true to its founding mission or original identities. Further, there appears to be a significant difference between “mission drift” and “mission shift”. While the word “*drift*”⁷ has the image of “slowly, silently, and with little fanfare carrying” institutions away to a new destination, which may not happen dramatically,

⁷“**THE SUBTLE DANGER OF MISSION DRIFT**” [Online] Retrieved from <http://www.thegospelcoalition.org/article/the-subtle-danger-of-mission-drift/>

“mission shift”⁸ is an intentional, planned change of direction or focus addressing changes in the environment that must be addressed. Mission shifts usually occur as a result of a SWOT (strengths, weaknesses, opportunities and threats) analysis as part of strategic planning.

It has to be stressed that the attempt at this stage is not to say mission drift is flawed, which in itself is a matter for debate, but it must be viewed as part of building stories for the overall elaboration of the meaning of mission drift. Clearly, the underlying principle of “mission drift” be it in nonprofit organizations or business enterprises seems to be the one foreshadowing the sustainability agenda.

From microfinance point of view, it is indicated that “mission drift” is a concern for socially-driven micro banks. Cull et al (2007) note that as clients mature and develop their businesses they should be able to increase loan sizes and their incomes should rise. A successful micro bank will thus find that, over time, their clients receive larger loans and will be less poor. The bank’s mission and practices may well need to shift with these changes, but the result is not mission drift as the term is generally understood. Mission drift, instead, is a shift in the composition of new clients, or a re-orientation from poorer to wealthier clients among existing clients.

Mission drift concerns in microfinance are claimed to be nothing new and as cited by Kar (2010:3) reference can be made of the long standing debate in microfinance between two major camps that represent broadly different approaches to microfinance i.e. the so-called “institutionalists” that emphasize on financial self-sufficiency, and the so-called “welfarists” that emphasize on direct poverty alleviation among the very poor. It is highlighted that the welfarists are critical of the increasing commercial and profit motivation in microfinance operation, and their scaling up to that end, is crowding out the really poor clients from

⁸ “**Avoiding and Correcting Nonprofit Mission Drift**” retrieved from <http://info.xfactorllc.com/Avoiding-and-Correcting-Nonprofit-Mission-Drift/>

microfinance services. Thus, the “welfarists” are more concerned about “mission drift” as compared to the “institutionalists” who also base their arguments on a number of debatable assertions and questionable empirical methodologies. The welfarists believe that microfinance is primarily meant for poverty reduction and poor women’s empowerment. On the opposite, the institutionists emphasize profitability of microfinance operations and prefer their self-sustainability.⁹

Bisen and Wilson (2012) reiterate that once driven fundamentally by development concerns, most importantly higher incomes for the poor, many scholars increasingly argue that microfinance “success” has become measured against the success of MFIs themselves, gauged by their progress toward achieving financial self-sufficiency which involves a move from a welfarist to an institutionist model of microfinance.

The commercialization and transformation of PRODEM, an NGO, into shareholder-owned BancoSol in Bolivia in the early 1990s first provoked debates surrounding mission drift. Since then, this issue continues to alert observers in more formal way (Mersland and Strom 2010). The debate was reignited along with some ethical issues when the primary shares of Banco Compartamos in Mexico were issued in April 2007, and subsequently a handful of people made huge money (Ashta and Bush, 2008). If an MFI has to live to its original mission of serving the poorest of the poor, the controversial issue of “mission drift” needs to be resolved.

Armendáriz & Szafarz (2009:2) therefore define mission drift as a phenomenon whereby an MFI increases its average loan size by reaching out wealthier clients neither for progressive lending nor for cross-subsidization reasons. Thus, mission drift may arise because MFIs might find it profitable to reach out to wealthier individuals while at the same time crowding out poor clients.

⁹For a comprehensive discussion on the welfarists versus institutionists debates see, for example, Woller et al. (1999) retrieved from <http://www.gdrc.org/icm/where-to-mf.html>.

Mission drift can only appear when the announced mission is not aligned with the MFI actual maximization objective. Because this is often the case as a large majority of MFIs tend to maximize outreach, our definition has the advantage of being a rather easily observable outcome, which can be potentially measured empirically.

“Mission drift” is a tendency reviewed by numerous microfinance institutions to extend larger average loan sizes in the process of scaling-up. It has to be noted that scaling-up in MFIS is perceived mostly in terms of “growth” or “expansion” of microfinance operations (Kar., 2010:254). In general, the scale-up motives may be examined in relation to the maximization of the profit, the increase in number of MFIs and the increase number of active borrowers but in the case of a given country context assessment and when time series based analysis is considered scale-up motive is mostly measured in size of outreach and growth of profitability. “Pressure to expand outreach can pose a dilemma to MFIs. The concern is that efforts to reach a significant scale by securing financial sustainability may lead to a tendency to provide larger loans to less poor clients and to employ stricter loan screening procedures. In other words, scale-up could lead to a drift from an MFI’s poverty alleviation mission.”¹⁰

Armendariz and Szafarz (2009 and 2011) further argued that this phenomenon is not driven by transaction cost minimization alone. Instead, poverty-oriented microfinance institutions could potentially deviate from their mission by extending larger loan sizes neither because of “progressive lending” nor because of “cross-subsidization” but because of the interplay between their own mission, the cost differentials between poor and unbanked wealthier clients, and region-specific characteristics pertaining the heterogeneity of their clientele.

¹⁰“What is “Mission Drift” in the context of the microfinance industry?” retrieved from <http://www.appg-microfinance.org/files/What%20is%20Mission%20Drift.pdf>

This notion of mission drift claims that excessive profit motivation will outshine the social mission of microfinance. This diversion in mission may lead MFIs to focus more on better-off clients that can take bigger loans (Kar, 2012). Thus, the tendency to move from social goal towards the commercial goal by MFIs is referred to as mission drift because the original mission of MFIs was social nature and it is the drift to more commercial goals that is called mission drift.

2.2. Empirical Studies and Measuring of Mission Drift

From the discussions in the previous paragraphs, we understand that measures for mission drift can use variables like average loan size, interest rates, the percentage of women clients, the percentage of rural clients, the percentages of loans made using group based lending methodology. If average loan size increase, if interest rate are made high, if less women borrowers are served, if rural clients are rejected in favor of urban clients, if the group lending method is scrapped for individual lending, we say the original MFIs mission is diverted i.e. we claim there is a mission drift. So measures of mission drift are change in these Dependent Variables (DVs).

Furthermore, the paragraph claims that the major reason for mission drift is motive for high profit and growth or scaling up motives. Bear in mind that there are many factors that affect the DVs (measures of mission drift) mentioned above. The DVs are not affected not only by profitability and scaling up motives. But to say mission drift, the DVs mentioned above have to be significantly affected by profitability and scaling up motives. If other explanatory variables affect the DVs, even if the DVs changed in negative way, it cannot be said mission drift. Thus the conceptualization of mission drift has to be clear. It is the change in the DVs in unfavorable way or direction and that change should mostly be as a result of profitability and/or scaling up motives.

Thus in a regression context, mission drift occurs only if the Independent Variables (IVs) are significant determinants of the DVs. Even if the DVs changed it cannot be called mission drift. Simply mission drift is measured by the strength of relationship between the right hand side and left hand side variables of the regression equation.¹¹

Although average loan size, interest rates, the proportion of women & rural clients, and lending methods can be used as measures of depth of outreach and the then mission drift, most empirical studies use only the average loan size and the percentage of women clients. (Mersland and Ström, 2010; Cull, Demirguc-Kunt and Morduch, 2007; Kar, 2012). Interest rates and lending methods are rather used as explanatory variables in the depth of outreach regression to be discussed later. Now we will discuss the rationale for using average loan size and the percentage of women borrowers in the forthcoming paragraphs.

Average loan size is the most important measure for mission drift in microfinance (Mersland and Ström 2010). For cross country comparison, it shall be deflated by GNI per capita. But for our case of one country, no need to deflate by GNI per capita. An increase in average loan size indicates worsening of outreach to the poor and the respective MFI's move towards better-off and/or successful client segments. However, average loan size may also increase over time due to other reasons, including progressive lending and cross-subsidization.¹² Mission drift occurs if

¹¹Mission drift shall be distinguished sharply from depth of outreach measures. Change in depth of outreach measures (especially worsening trends) may not be mission drift if it is not due to motives for increased profit and scaling up. Thus depth of outreach is measured by changes in left hand side variables whereas mission drift is measured by the strength of relationship between left and right hand variables. Such distinction is important because change in depth of outreach measures can be caused by other factors than motives for increased profit and scaling up in which case it will not be considered as mission drift.

¹²Progressive lending means existing loan clients can reach higher credit ceilings after observing a clean repayment record at the end of each credit cycle. Cross-subsidization means reaching out to the unreached wealthier clients in order to finance a larger number of poor clients whose average loan size is relatively small. (Kar, 2012)

an MFI increases its average loan size by reaching out to wealthier clients neither for progressive lending nor for cross-subsidization reasons (Armendaritz and Szafarz 2009).

The percentage of women borrowers served is also another important measure of depth of outreach. For instance, in poor countries women are largely overrepresented among the hard-core poor. In addition, female borrowers have high repayment rates on loans and they are likely to be more concerned over their children's health and education (Armendariz de Aghion and Morduch 2005). So, historically, women borrowers constitute the main target groups for most of the MFIs and almost since the inception of the Grameen bank in Bangladesh, for instance, outreach to women has been a priority (Dowla and Barua 2006). Therefore, higher participation of women clients clearly ensures MFIs' adherence to the original mission of reaching the poor.

But in the above paragraph, one controversial argument is raised in using the percentage of women borrowers as a measure of depth of outreach and then mission drift. The fact that women, as compared to men, have high repayment rates and are more concerned over children health & education don't help us to classify them as poor people and thus be targeted by MFIs. There is no connection between these two. But a fallacious argument is used to connect women high repayment rate & their concern over their child welfare with their poverty.

Thus, mission drift can well be measured through examining the linkage between MFIs' depth of outreach and profitability. However, especially in the context of cross-country studies, Kar (2012) points out the need to be careful as to whether the proxies would have similar significance across nations. For instance, the purpose of a loan, the presence of alternative sources of credit and MFI-specific dissimilar missions may affect average loan size. Again, the percentage of loans extended to female borrowers may need to be considered against the prevailing and

preceding levels of discrimination against women, the laws regarding property rights within marriage and so on.

In our study of one country context, the concerns raised by Kar (2012) on using average loan size and the percentage of women borrowers as depth of outreach and then mission drift measures is not that much worrying. We feel that all Ethiopian MFIs have the same mission of reducing poverty and building sustainable MFIs. Such mission similarity is expected because the regulation format in the country allows only MFIs operate as licensed share companies. NGO and other unregulated form of doing the MFIs business are not allowed. So regulation similarity forces all of the MFIs to have the same mission.

Chapter 3: Research Methodology

In the Ethiopian context, it is rather difficult to come across a comprehensive study that addressed “mission drift”. The only notable attempts were by LetenahEjigu (2009) and Vashisht, Karamjeet&Ejigu (2011). While the former study approached the issue using simple test of ANOVA (Analysis of Variance) and univariate technique, which suffers from the lack of control variables and hence the results are not conclusive, the latter study opted panel data regression model. This study is a bit advanced, but still the simultaneity (endogeneity) bias in the relationship between depth of outreach and sustainability is not properly addressed. In general, the previous attempts in addition to being modest and few in numbers happen to use elementary models.

The current study is, therefore, intended to make modest contributions in the subject and shed more light to the debate of mission drift.

3.1. Hypothesis

Based on the review of the related literature, the following hypotheses are formulated.

- 1. Depth of Outreach & Profitability:** There is a trade-off between MFIs’ increased motivation for profitability and depth of outreach. This means depth of outreach declines (average loan size increases and women’s participation decreases) with MFIs’ increased profitability. Simply there is mission drift with increased profit motive.
- 2. Depth of Outreach & Scaling Up:** There is a trade-off between MFIs’ increased motivation for growth (scaling up) and depth of outreach. This means depth of outreach declines (average loan size increases and women’s participation decreases) with MFIs’

increased scaling up motive. Simply there is mission drift with increased scaling up motive.

3. Depth of Outreach & Interaction Term of Profitability x MFIs Scaling up

Measures: Depth of outreach declines more for those profitable MFIs that are large sized& old aged as opposed to profitable but small sized& young MFIs. This means the extent of mission drift is high in those profitable MFIs that large in size and old in age.

4. Depth of Outreach & Interaction Term of Profitability x MFIs Lending Method:

Depth of outreach declines more for those profitable MFIs that use individual lending method as opposed to those profitable MFIs that use both individual and group lending methodology or those usingonly group lending methodology. This means the extent of mission drift is high in those profitable MFIs that use individual lending methodology.

5. Depth of Outreach & Interaction Term of MFIs Scaling Up Measures x MFIs

Lending Method: Depth of outreach declines more for those large size and old aged MFIs that use individual lending method as opposed to those large size and old age MFIs that use both individual and group lending methodology or those using only group lending methodology. This means the extent of mission drift is high in those large size and old age MFIs that use individual lending methodology.

3.2. Data Type and Collection Technique

In undertaking this study attempt has been made to collate appropriate data and information from relevant sources including the NBE, the AEMFI and the Microfinance Information exchange (MIX) Market and the Micro-Banking Bulletin (MBB) – the publication of the MIX Market. Although it was initially proposed to undertake focus group discussions and key informants

interviews, the analysis was eventually carried through secondary data reviews and modest interviews and consultations with knowledgeable people in the sector.

According to data compiled from the Association of Ethiopian Microfinance Institutions (AEMFI) and the NBE website (<http://www.nbe.gov.et/aboutus/faq.html>), there are 31 MFIs operating in Ethiopia as of December 2013. Based on their ownership, MFIs in Ethiopia can be categorized in to those owned by regional governments and NGO backed nominal shareholders. There are few privately owned operational MFIs such as Agar MFI and Dynamic MFI. Although, the NBE regulation requires MFIs to be setup as business companies, the shareholders of both regional governments owned and NGO backed MFIs don't commit themselves to share dividends bur rather to reinvest dividends. According to subjective informed opinion, Agar MFI is presently at the verge of processing to effect dividend payments to its shareholders.

Virtually all MFIs use a combination of group and individual lending modalities. MFIs in Ethiopia also claim to have a rural bias and be gender sensitive. Although the group lending methodology was preferred by the MFIs, subjective informed opinion ascribe the lending mixture changes towards increased individual lending modality in recent years.

The empirical analysis for this study has been focused on an ingenious panel database constructed from the relevant sources including AEMFI and the NBE. Virtually all MFIs in Ethiopia are required to officially submit their annual operation and financial reports to the NBE which licenses and supervises the operation of MFIs in Ethiopia. Towards this end, the NBE has developed standard reporting formats which the MFIs use in preparing and submitting their yearly performance reports. Based upon the detailed reports submitted by each MFI which is subject to verification by the NBE, there is a database of the microfinance industry maintained by the NBE. However, it has to be noted that the NBE allows access only to the yearly aggregate

data and information on the MFI industry as a whole without any detail disclosure when it comes to respective individual MFIs outreach and performance analysis reports.

AEMFI is a national network of the MFIs in Ethiopia and all operational MFIs are members of AEMFI. Among other things, AEMFI aims to promote financial transparency in the sector through the use of performance measures. To supplement this objective, AEMFI collects and analyses basic financial and operational data of MFIs and disseminates this information to various stakeholders. Since 2005, AEMFI also publishes an annual performance analysis report bulletin for Ethiopian MFIs. It has so far produced nine consecutive yearly bulletins i.e. from 2005 – 2013. In doing so, AEMFI uses external audit reports collected from MFIs and other data and information provided by member MFIs and the NBE. The data computation and analysis is mostly done through the performance monitoring and benchmarking toolkit (MIX Monitor) developed by the Microfinance Information eXchange.

AEMFI notes that the data maintained by the NBE is the most reliable although the access is limited. As regards the Microfinance Information exchange (MIX) Market and the Micro-Banking Bulletin (MBB) – the publication of the MIX Market, it is indicated not all Ethiopian MFIs actively participate. Even those with a tradition of reporting to MIX market, it is stated that they don't regularly report showing a danger of consistency and regular updating.

In view of the accessibility and reliability it is decided to concentrate on data supplied by AEMFI. Thus, in accordance with operational definition of variables, the individual MFI data have been compiled from the yearly AEMFI bulletins. Accordingly, with the exception of the loan classification into urban and rural portfolios and the loan delivery method (group lender, individual group lender, and individual lender), all the rest independent variables and the interaction terms specified in Table 1 have been compiled from AEMFI bulletin.

Since Ethiopian MFIs are not obliged either by the NBE or their respective boards to report on the breakdown of their lending modalities, the databases both at AEMFI and NBE don't exhibit the group versus individual loan mix as well as the rural versus urban portfolio classifications on yearly basis. It has to be noted that most efforts to institutionalize microfinance in Ethiopia has focused on rural lending (mostly loans for agribusiness, agricultural inputs (fertilizers, seeds, agro-chemical, bee hives, bee colonies, & honey processing machineries), grain trading, micro insurance (credit life insurance & micro insurance), and savings mobilization). Although rural lending still remain the dominant product offered by Ethiopian MFIs, with the exception of ADCSI which solely operates in the capital of Ethiopia i.e. Addis Ababa, the rest MFIs deliver both rural and urban loans. In addition, there is no MFI that specializes only on group loan or individual loan but rather a combination of both though the trend seems to be towards individual loans. Increasingly the MFIs are focusing to offer individual loans.

It is possible to exactly know the urban rural loan portfolios mix and the proportion of loans given by using group and individual lending methods by each MFIs. But this type of data is not easily available from the annual reports of MFIs as well as AEMFI's bulletins. Compiling data on the respective MFIs' loan methodology needs door to door survey of each MFIs which is costly and has time pressure to accomplish the thesis within the deadline especially considering the time allotted to submit the final thesis within a month duration after the approval of the proposal was obtained from IGNOU. Even then, attempt was made to verify the work load and duration needed to gather data by directly approaching the MFIs located in Addis Ababa and it was discovered that compiling such data takes quite substantial duration and effort.

It is suggested to ignore these variables and use other control variables like MFIs size and age only. The legal status variable is also irrelevant because all MFIs within Ethiopia have the same legal status. Thus the panel econometrics analysis is realigned with the available data.

3.3. Population Sample Size

Although the number of Ethiopian MFIs has reached 31 as of December 2013, excluding those under startup and establishment stage, only few MFIs tend to have much long time series data as per the MIX Market website. This is mainly because of the recent emergence of the MFI industry, only 18 years old since the first MFI started operation, and the gradual inclusion of the time series data in the MIX Market website. Data of 10 MFIs from the year 2005-2013 (representing 9 years) has been used, making it 90 MFI-Year observations which is adequate for a sound regression analysis. Within this panel data, there is no missing data for all MFIs during the whole reporting years under consideration. Thus the panel data is fully balanced data.

The selection of the MFIs for the sample is based on availability of long time series data and this can be considered as judgment sampling technique. Obviously such can't be a random sample and will cast a shadow on the results to be discussed in the future. But this sample is the maximum that we can collect within the available time and budget constraint to reflect the reality of Ethiopian MFIs in fair way.

3.4. Data Analysis using Statistical Software (STATA)

Empirical studies usually specify depth of outreach as a function of MFIs' financial performance and institutional factors, including size, experience, loan delivery method, legal status and geographic allocation (see, for example, Cull, Demirguc-Kunt and Morduch 2007). Keeping the outlined practice in mind, the following empirical model is estimated to test the hypothesis:

$$Y_{it} = \beta' X_{it} + \delta' Z_i + u_i + \varepsilon_{it}$$

Where

- Y_{it} represents the measures of depth of outreach of MFI at time t
- X_{it} is a (1xk) vector of observed variables that vary over individual MFIs and time
- β is a (k x 1) vector of coefficients on X
- Z_i is a (1x p) vector of time-invariant variables that vary only over individual MFIs
- δ is a (p x 1) vector of coefficients on Z
- u_i is the MFI-individual effect and is assumed to be an unobserved time-invariant random variable, independently distributed across MFIs with variance σ_u^2
- ε_{it} is the usual (idiosyncratic) error term, which is assumed to be uncorrelated with the vector columns (X, Z, u) and has a zero mean and constant variance σ_ε^2 conditional on X_{it} and Z_i . Together, $v_{it} = u_i + \varepsilon_{it}$ is sometimes referred to as a composite error term where u_i the time-invariant unobservable individual-specific effect is and ε_{it} is the remainder disturbance term.

3.4.1. Operational Definition of Variables

Table 1 shows the detail constructs used in our research, their measurable elements (i.e. variables) and the measures used for each variable.

Table 1: Constructs, Variables and their Measurements

No.	Construct	Variable	Measures
1	Profitability & Self Sufficiency	FSS	Adjusted operating revenue/Adjusted (financial expense + loan loss provision expense + operating expense)
		ROA	Net operating income after taxes)/Average total assets
		Yield	Interest and fees on loan portfolio/Average gross loan portfolio
2	Scaling Up Measures	MFI-Size	The natural logarithm of total assets in US\$
		MFI-Age	Number of years in microfinance operation
3	Lending Methods ¹³	Individual Lender	A dummy that equals 1 if the MFI does some individual style lending, 0 otherwise
		Individual-Group Lender	A dummy that equals 1 if the MFI does some combination of individual and group lending, 0 otherwise
		Group Lender	A dummy that equals 1 if the MFI does some group style lending, 0 otherwise
4	Interaction Terms	Profitability and Self-Sufficiency Measures X ScalingUp Measures	FSS X MFI-Size ROA X MFI-Size Yield X MFI-Size FSS X MFI-Age ROA X MFI-Age Yield X MFI-Age
5	Depth of Outreach	Average Loan Size	Total value of loans/Number of credit clients
		Women Borrowers	Percentage of female borrowers

Source: Compiled by the Researcher.

3.4.2. Variables Developed for Analysis (Results and Discussion)

In order to carry out the panel data estimation method and for estimating the relationship among variables, the researcher has developed various terms by following the literature contributed on mission drift analysis. By taking a sample of 90 observations, the study includes the following independent and control variables.

¹³Recall the individual only lender is the omitted category and will not enter in interaction effects. The basic results of profitability and self sufficiency measures will be for this omitted category of individual only based lender.

- Age = Years of Operation since establishment
- ATA = Average Total Asset
- NAB = Number of Active Borrowers
- PercWB = percent of Women Borrowers
- GLP = Gross Loan Portfolio
- ALBB = Average Loan Balance (Size) per Borrower
- FSS = Financial Self Sufficiency
- OSS = Operational Self Sufficiency
- ROA = Return on Assets
- AROA = Adjusted ROA
- ROE = Return on Equity
- AROE = Adjusted Return on Equity
- percFSS = percent of FSS
- percOSS = percent of OSS
- percAOR = percent of Adjusted Operational Revenue
- percAOE = percent of Adjusted Operational Expense
- MFIS = MFI Size
- MFIA = MFI Age
- Y = Yield

Chapter 4: Estimation and Result Analysis

4.1. Estimation

In undertaking the analysis of mission drift in Ethiopia, this study deployed panel dataset of the MFIs selected for the survey. Accordingly, the approach followed in this study is first to organize the panel data with respect to the MFIs covered in the study. The panel dataset of 10 MFIs covering the period 2005 – 2013 (representing nine years) has been used. The history of microfinance in Ethiopia is a recent phenomenon which only dates back to 1996 and a review of the MFIs licensed to undertake microfinance in Ethiopia reveals that as at the end of 2013 there were only 31 MFIs in total, of which the early generation MFIs were few in number and they focused their operation in the four most populous regions of Ethiopia.

Thus, the study has attempted to include the entire pioneer MFIs that started operation within the available duration of late 1990s and early 2000s. The study attempts to provide empirical evidence on mission drift using the panel database that contains nine years' observations from 10 MFIs.

Annex 1 show the details of the panel data set developed for analysis. It summarizes the data with respect to the MFIs covered in the study. The table computed for the analysis is developed using excel sheet and verified to be balanced for STATA software. It can be seen that there is no missing data for all the MFIs covered within this panel dataset, which is also confirmed to be perfectly balanced by the STATA software.

4.2. Results and Analysis

4.2.1. Descriptive Statistics

Table 2 shows depth outreach characteristics of MFIs in Ethiopia. On the average, the minimum loan disbursed is USD 17.89 while the maximum loan is USD 963.94 which is less than a thousand dollars. The mean shows the average loan per borrower which amounts to USD93.66. This lies on the fringe of the poverty lending considered by the MFIs in Ethiopia. The median shows that on the average 52% of the clients are female borrowers. According the subjective informed opinion, the strategic plan of most MFIs covered in the study targets as much as clients as 60% female clients.

Table 2: Depth Outreach Characteristics

Particulars	Average Loan (Birr)		Gender (% Women Borrowers)
	Ethiopian Birr	US\$	
Mean	1,867.64	93.66	.50
Median	1,432.00	72.04	.52
Standard Deviation	2,158.08	108.57	.20
Minimum	355.57	17.89	.02
Maximum	19,160, 81	963.94	.82
Observation	90		90

Source: Extracted from AEMFI Annual Bullets (2005-2013)

Note: Current average exchange rate used pertains to the average in October 2014 which is approximately 1 US\$ is equivalent to 19.88 Ethiopian Birr

Until the mid 1990s, the Ethiopian currency i.e. Birr, was pegged to the USD at a fixed exchange rate of 1 USD at Birr 2.07. Since then, the Ethiopian currency has been devaluated officially several times while the regular applicable exchange rates are dependent on weekly auctions handled by the NBE. For the analysis, the exchange rate as at October 2014 has been considered. Table 3 and Figure 1 present the mean and median average loan trend analysis. In general, the average loan has monotonously increased during the period from 2005 to 2013. However, before four years it was decreasing while it showed slight increase with no sign of saturation then after. The other thing there is no difference between the two (mean and median) as both show similar trends. This is also shows how Ethiopian MFIs accords priority to self sufficiency without leaving their strategic directions of serving more clients and reaching more women clients.

Table 3: Mean and Median Average Loan

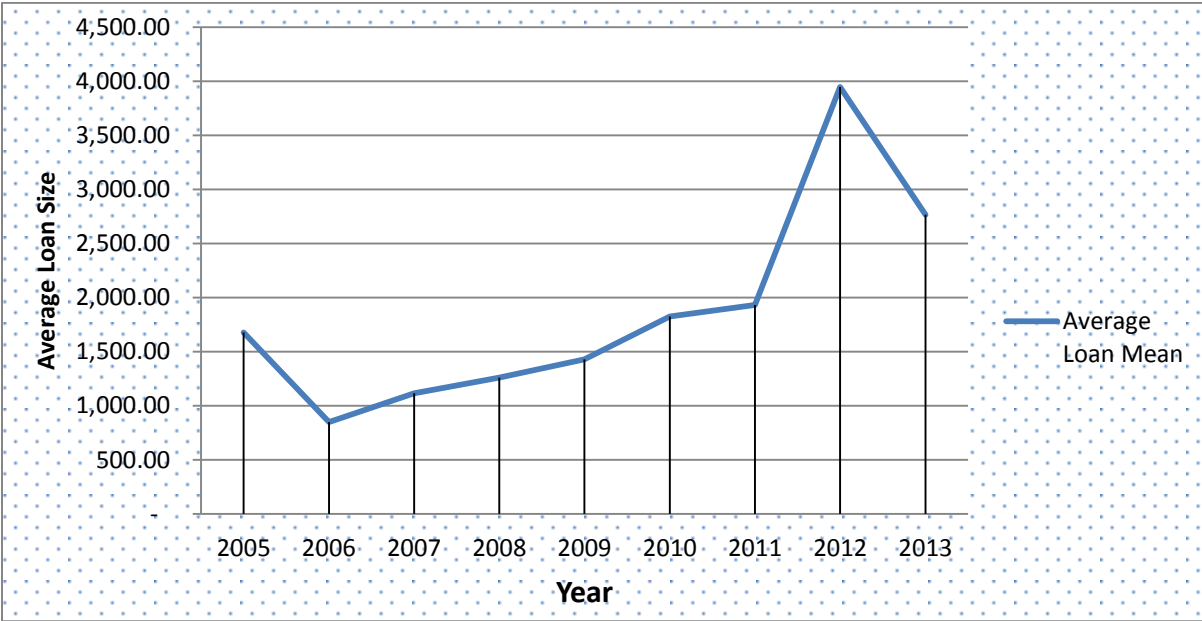
Age	Median		Mean	
	Eth. Birr	US Dollar	Eth. Birr	USD
3	2,180.27	109.69	3,728.71	187.58
4	776.23	39.05	716.21	36.03
5	856.37	43.08	980.51	49.33
6	866.21	43.58	1,037.17	52.18
7	1,011.30	50.88	1,059.13	53.28
8	1,134.15	57.06	1,342.41	67.53
9	1,271.00	63.64	1,395.54	70.21
10	1,694.84	85.26	1,949.04	98.05
11	1,965.78	98.89	2,027.41	101.99
12	2,372.45	119.35	4,083.11	205.41
14	2,444.27	122.97	2,532.87	127.42

Source: Extracted from AEMFI Annual Bullets (2005-2013)

Figure 1 also confirms the evidence that the average loan slightly increase with MFI age. It is true that the poor generally demand for small loans. Over time, it is indicated that the inflationary situation in the country has impacted the volume of loan to be disbursed to poor clients. In view of the micro and small enterprise development pursued in the county, there is also a pressure on the MFIs to embark on enterprise financing and leasing which involve relatively speaking huge investment outlays reflected in higher amounts of loans to be offered by the MFIs.

It has to be noted that there excess demand to be fulfilled by Ethiopian MFIs. According to AEMFI, the MFI cater for only less than 30% of the total demand for microfinance services and products showing the need, among others, to enhance financial liquidity on the side of MFIs.

Figure 1: Mean of Average Loan

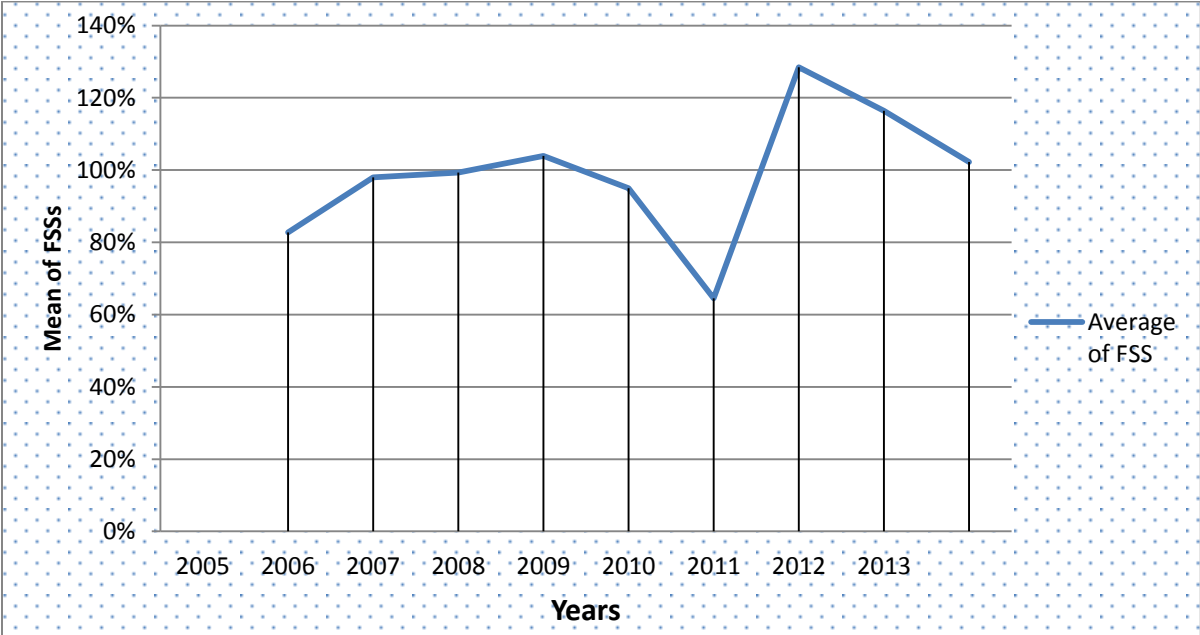


Source: *Extracted from AEMFI Annual Bullets (2005-2013)*

In micro finance environment, average loan size indicates the death of its service. Looking at the figure above, the trend is a kind mixed one; decreasing (2005 and 20011) and decreasing (2012

to 2013). The trend shows that, over the seven years, the loan size these MFIs avail to individual client tends to follow an increasing fashion. This trend is one of an indication of mission drift.

Figure 2: Mean of FSS



Source: Extracted from AEMFI Annual Bullets (2005-2013)

FSS is an indicator of financial performance (profitability) of MFI. The above graph indicates that the average FSS of the ten MFIs under consideration is a kind of mixed one over the nine years. As depicted on the graph above, the indicator shows increasing trend over the first four years (2005 to 2008) while decreasing in the following two years (2009 and 2010). Over the last three years, the trend shows increasing for one year (2011) and steady increment in the last two years (2012 and 2013). The two graphs above indicate that both FSS and ALS follows slightly the same trend over the years under consideration.

4.2.2. Panel Econometrics

To test for mission drift in Ethiopia, the main measures of outreach have been considered. In the first mission drift model, the average loan size per borrower (ALBB) was tested with other variables.

The study utilizes panel data methodology and applied two different models, fixed and random effect, to conduct the analysis. To choose the appropriate model between fixed effects model and random-effect model, additional orthogonality assumptions of over identifying restrictions of the random effects is tested using Hausmann fixed-vs-random effects test under conditional homoscedasticity. Rejection of additional orthogonality assumptions of the random-effects model implies that the fixed effect model is preferred.

The first analysis made in STATA was to run fixed and random effect regression to test the two sets of panel models. The first set of fixed and random effect models uses average loan size (average loan balance per borrower denoted as albb), a proxy for outreach as the dependent variable with other relevant explanatory variables such as experience proxy by age, number of active borrowers, gross loan portfolio, sustainability proxy by operating self-sufficiency (OPSS), MFI size, profitability proxy by financial self-sufficiency, and interaction terms FSS (Financial self-sufficiency) x MFI-Size, ROA(Return on Asset) x MFI-Size, Yield x MFI-Size, FSS x MFI-Age, ROA x MFI-Age, and Yield X MFI-Age. In the second set of panel models, the percentage of active women borrowers (denoted by percwob) is used as the dependent variable, a second proxy for outreach, while other control variables taken in the first set are used as independent variables.

Table 4: Result of fixed effect model analysis for first set of panel data taking average loan size as dependent variable

```
. xtreg albb age nab glp percfs percoss size fssxmfis roaxmfis yxmfis fssxmfia roaxmfia yxmfia,fe
```

Fixed-effects (within) regression
 Group variable: id

Number of obs = 90
 Number of groups = 10

R-sq: within = 0.1959
 between = 0.2703
 overall = 0.1967

Obs per group: min = 9
 avg = 9.0
 max = 9

corr(u_i, Xb) = -0.1916

F(12,68) = 1.38
 Prob > F = 0.1967

	albb	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
age		265.0315	235.0879	1.13	0.264	-204.079	734.1421
nab		-.0070131	.0053142	-1.32	0.191	-.0176173	.0035912
glp		3.08e-06	1.56e-06	1.98	0.052	-3.16e-08	6.19e-06
percfs		2303.852	2435.499	0.95	0.348	-2556.111	7163.814
percoss		-3.781772	864.7122	-0.00	0.997	-1729.288	1721.725
size		378.2214	409.8028	0.92	0.359	-439.5274	1195.97
fssxmfis		-9.609685	21.43941	-0.45	0.655	-52.39136	33.17199
roaxmfis		10.15001	136.4497	0.07	0.941	-262.1312	282.4312
yxmfis		-13924.52	9944.08	-1.40	0.166	-33767.62	5918.584
fssxmfia		-373.2302	238.2727	-1.57	0.122	-848.696	102.2355
roaxmfia		-349.4605	1009.306	-0.35	0.730	-2363.499	1664.578
yxmfia		1718.451	1048.699	1.64	0.106	-374.1946	3811.097
_cons		-6507.449	7054.363	-0.92	0.360	-20584.21	7569.314
sigma_u		689.33445					
sigma_e		2086.0253					
rho		.09844896	(fraction of variance due to u_i)				

F test that all u_i=0: F(9, 68) = 0.88 Prob > F = 0.5471

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

Table 5: Result of random effect model analysis for first set of panel data taking average loan size as dependent variable

```

. xtreg albb age nab glp percfs percoss size fssxmfis roaxmfis yxmfis fssxmfia roaxmfia yxmfia,re
Random-effects GLS regression                Number of obs   =       90
Group variable: id                          Number of groups =       10

R-sq:   within = 0.1904                      Obs per group:  min =        9
         between = 0.3254                     avg =       9.0
         overall = 0.2029                     max =        9

Random effects u_i ~ Gaussian                wald chi2(12)   =      19.60
corr(u_i, X) = 0 (assumed)                  Prob > chi2     =      0.0749

```

	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
age	218.9172	188.3891	1.16	0.245	-150.3187	588.153
nab	-.0069376	.0033689	-2.06	0.039	-.0135404	-.0003348
glp	3.08e-06	1.24e-06	2.49	0.013	6.51e-07	5.50e-06
percfs	2585.58	2014.136	1.28	0.199	-1362.053	6533.213
percoss	-195.4011	709.2988	-0.28	0.783	-1585.601	1194.799
size	346.6005	270.7082	1.28	0.200	-183.9778	877.1789
fssxmfis	-9.486962	19.63611	-0.48	0.629	-47.97303	28.99911
roaxmfis	-9.828721	116.7055	-0.08	0.933	-238.5674	218.9099
yxmfis	-13260.82	7277.079	-1.82	0.068	-27523.64	1001.991
fssxmfia	-381.5848	204.3257	-1.87	0.062	-782.0559	18.88624
roaxmfia	-119.503	834.6398	-0.14	0.886	-1755.367	1516.361
yxmfia	1699.284	805.0539	2.11	0.035	121.4073	3277.16
_cons	-5551.825	4574.248	-1.21	0.225	-14517.19	3413.536
sigma_u	0					
sigma_e	2086.0253					
rho	0	(fraction of variance due to u_i)				

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

Table 6: Comparison of fixed and random effect model to choose the one that is appropriate for the data under analysis

```

. hausman fixed random

```

	Coefficients		(b-B)	sqrt(diag(v_b-v_B))
	(b) fixed	(B) random	Difference	S.E.
age	308.0353	263.8548	44.18049	131.0434
percfs	1252.44	1693.303	-440.8636	1190.561
percoss	-270.4318	-375.2076	104.7759	459.5736
size	348.4522	342.9186	5.533658	338.1324
fssxmfis	-3.809483	-6.566624	2.757141	6.024772
roaxmfis	36.24397	4.858328	31.38564	75.31782
yxmfis	-9770.24	-10426.85	656.6068	5523.306
fssxmfia	-260.7305	-314.4524	53.72195	96.51045
roaxmfia	-375.5161	-115.4419	-260.0743	578.2697
yxmfia	1261.097	1414.826	-153.729	488.7399

b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic
 chi2(10) = (b-B)'[(v_b-v_B)^(-1)](b-B)
 = 18.36
 Prob>chi2 = 0.0492
 (v_b-v_B is not positive definite)

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

Table 7: Result of fixed effect model analysis for second set of panel data taking percentage of women borrowers as dependent variable

```
. xtreg percofwb age percfsf percoss size fssxmfis roaxmfis yxmfis fssxmfia roaxmfia yxmfia,fe
```

Fixed-effects (within) regression
Group variable: id

Number of obs = 90
Number of groups = 10

R-sq: within = 0.2492
between = 0.3361
overall = 0.0125

Obs per group: min = 9
avg = 9.0
max = 9

corr(u_i, xb) = -0.4389

F(10,70) = 2.32
Prob > F = 0.0200

percofwb	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
age	-.0053003	.0107588	-0.49	0.624	-.026758	.0161575
percfsf	-.0179616	.1089293	-0.16	0.870	-.2352142	.1992909
percoss	.0526418	.0395974	1.33	0.188	-.0263327	.1316163
size	.0010972	.0191147	0.06	0.954	-.0370259	.0392203
fssxmfis	.0008227	.0009507	0.87	0.390	-.0010736	.0027189
roaxmfis	.0146842	.0063507	2.31	0.024	-.0020183	.0273502
yxmfis	-.4650383	.4212538	-1.10	0.273	-1.305202	.3751259
fssxmfia	.0097888	.0101063	0.97	0.336	-.0103675	.0299452
roaxmfia	-.0848103	.0472188	-1.80	0.077	-.1789852	.0093645
yxmfia	.052992	.0424183	1.25	0.216	-.0316086	.1375927
_cons	.3919409	.3295043	1.19	0.238	-.2652346	1.049116
sigma_u	.20444461					
sigma_e	.09760817					
rho	.81437188	(fraction of variance due to u_i)				

F test that all u_i=0: F(9, 70) = 17.22 Prob > F = 0.0000

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

```
. hausman fixed random
```

	Coefficients		(b-B) Difference	sqrt(diag(v_b-v_B)) S.E.
	(b) fixed	(B) random		
age	308.0353	263.8548	44.18049	131.0434
percfsf	1252.44	1693.303	-440.8636	1190.561
percoss	-270.4318	-375.2076	104.7759	459.5736
size	348.4522	342.9186	5.533658	338.1324
fssxmfis	-3.809483	-6.566624	2.757141	6.024772
roaxmfis	36.24397	4.858328	31.38564	75.31782
yxmfis	-9770.24	-10426.85	656.6068	5523.306
fssxmfia	-260.7305	-314.4524	53.72195	96.51045
roaxmfia	-375.5161	-115.4419	-260.0743	578.2697
yxmfia	1261.097	1414.826	-153.729	488.7399

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(10) = (b-B)'[(v_b-v_B)^(-1)](b-B)
= 18.36
Prob>chi2 = 0.0492
(v_b-v_B is not positive definite)

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

Interpretation of the result

Choosing Fixed to Random effect Model: The Hausman test (Table3) shows Chi2 (10) =18.36 with Prob>chi2 =0.0492, When P-value is insignificant i.e. Prob>chi2 larger than 0.05, random effects is chosen but when it is significant fixed effect is selected. Thus for our model, based on Hausman test, fixed effect is chosen for this analysis.

Regression Results: The research hypothesis has predicted that depth of outreach declines more for those profitable MFIs that are large sized & old aged as opposed to profitable but small sized & young. The finding from the first set of regression has indicated that there is no significant correlation between the independent variables taken and the dependent variable in the formulated function producing higher P-values(Prob> F = 0.3601).

Having found insignificant differences from multiple variable regression in fixed effect model, the method of analysis was further broken down to few variables removing variables that are not contributing to the model so as to explore presence of significant correlation between the dependent and one or two independent variables.

A) First set regression test was done if there is reduction or growth in average loan size as the age of MFI increases.

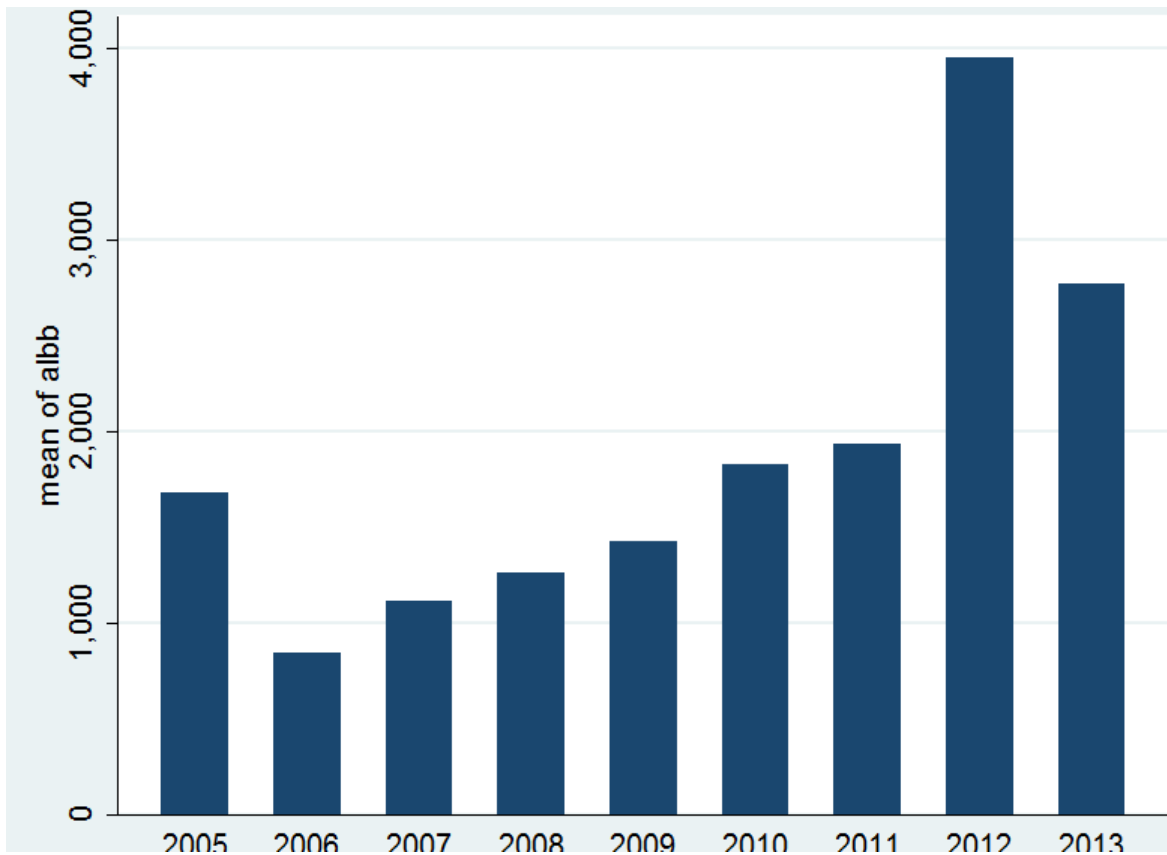
Table5. Average loan size increment measured by Average Loan size registered in the period 2005-2013.

. sum albb					
Variable	Obs	Mean	Std. Dev.	Min	Max
albb	90	1867.636	2158.076	355.57	19160.81

```
. table year, contents(freq mean albb)
```

Year	Freq.	mean(albb)
2005	10	1678.76
2006	10	848.201
2007	10	1116.959
2008	10	1261.729
2009	10	1430.21
2009	10	1430.21
2010	10	1824.954
2011	10	1931.333
2012	10	3948.987
2013	10	2767.595

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))



F test that all u _i =0:		F(9, 71) =	1.35	Prob > F = 0.2259		
. reg albb age						
Source	SS	df	MS	Number of obs = 90		
Model	26881341.5	1	26881341.5	F(1, 88) = 6.10		
Residual	387617812	88	4404747.86	Prob > F = 0.0154		
Total	414499154	89	4657293.86	R-squared = 0.0649		
				Adj R-squared = 0.0542		
				Root MSE = 2098.7		
albb	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
age	179.9872	72.85791	2.47	0.015	35.19743	324.777
_cons	281.7491	679.009	0.41	0.679	-1067.639	1631.137

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

B) Second set regression test was done to identify functional relation of the number of active borrowers(nab) and gross loan portfolio(glp) as independent variables with average loan size.

. reg albb nab glp						
Source	SS	df	MS	Number of obs = 90		
Model	42461427.5	2	21230713.8	F(2, 87) = 4.96		
Residual	372037726	87	4276295.7	Prob > F = 0.0091		
Total	414499154	89	4657293.86	R-squared = 0.1024		
				Adj R-squared = 0.0818		
				Root MSE = 2067.9		
albb	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
nab	-.0067888	.0027231	-2.49	0.015	-.0122014	-.0013763
glp	3.28e-06	1.07e-06	3.07	0.003	1.15e-06	5.40e-06
_cons	1872.538	284.3538	6.59	0.000	1307.354	2437.722

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

The above graph and tables indicate that

- Average loan size showed increasing trend with age showing significant difference $P < 0.05$ and positively correlated. A unit increase in MFI's age would elicit 179 Birr increase in average loan size.

- Both number of active borrowers and gross loan portfolio showed significance difference $P < 0.05$ where the number of active borrowers is negatively correlated to average loan size.

It is generally believed that the poor always request for smaller loans, therefore, change in the poverty level of the MFIs' clients is measured by average loan size (Mosely (1996), Armendariz and Szafarz (2009)). Thus, a reduction in average loan size is associated with the increase in the depth of lending to the poor, while increase in loan size is seen as deviating resources from the poor. Both results are affirming presence of mission drift associated with the increase average loan size while reducing the depth of outreach to the poor.

The results of the first models (related to average loan size OUTREACH) have partially proved the prediction made by the hypothesis that depth of outreach declines more for those profitable MFIs that are large sized & old aged as opposed to profitable but small sized & young MFIs. The test result did not indicate significant difference for correlation of size with the dependent variable holding the assumption of mission drift in those profitable MFIs that are old in age true whether their size is large or small. This result has shown that the pursuit for profit by MFIs would lead to mission drift and confirm prediction of mission drift to exist in Ethiopia where the targets MFIs are operational.

In the second set of panel models, the percentage of active women borrowers (denoted by percwob) was used as the dependent variable, a second proxy for outreach, while other control variables taken in the first set are used as independent variables. As in the case of the first set of model, the fixed effect model has produced higher P-Value for the factors assumed to be significantly correlated to the dependent variable, percentage of women borrowers, forcing us to test smaller number of variables using linear regression model. Therefore three independent

variables only were found to produce significant result where two of the coefficients are negatively correlated with the dependent variable.

Table6. Second set regression test result for functional relation of the number of active borrowers (nab) and gross loan portfolio (glp), and size as independent variables analyzed with percentage of women borrowers.

. reg percofwb nab glp size						
Source	SS	df	MS			
Model	.926027925	3	.308675975	Number of obs =	90	
Residual	2.51728758	86	.029270786	F(3, 86) =	10.55	
Total	3.44331551	89	.038688938	Prob > F =	0.0000	
				R-squared =	0.2689	
				Adj R-squared =	0.2434	
				Root MSE =	.17109	
percofwb	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
nab	-6.31e-07	2.46e-07	-2.57	0.012	-1.12e-06	-1.43e-07
glp	2.04e-10	9.02e-11	2.27	0.026	2.52e-11	3.84e-10
size	-.0407005	.0191749	-2.12	0.037	-.0788189	-.002582
_cons	1.297192	.3387988	3.83	0.000	.6236823	1.970702

Source: SPSS Output (Extracted from AEMFI Annual Bullets (2005-2013))

The above table revealed that

- Percentage of women borrowers showed increasing trend with gross loan portfolio showing significant difference $P < 0.05$ and positively correlated.
- Both number of active borrowers and size showed significance difference $P < 0.05$ where the coefficient of both variables to be negatively related with percentage of women borrowers.

In this model the result shows that both, number of active borrowers and size are negatively related with percentage of women borrowers implying that a unit increase in the independent variables could reduce lending to women. The finding shows that the depth of outreach to

women decline for large size MFIs which implies presence of mission drift as MFIs getting larger and larger.

Reports have been produced claiming that microfinance institutions (MFIs) experience mission drift as they increasingly furnish credit service to customers who are better off than their original customers. The study has examined the existence of mission drift in Ethiopia, using average loan size and women access to credit as proxy for microfinance outreach. The study employed a large data set of ten MFIs spanning nine years, and performed panel data estimations with fixed effect and random effect models followed by linear regression analysis. The study findings indicated that the average loan size has increased in the industry as a whole showing a tendency toward a higher proportion of lending to wealthier clients. In the same way the depth of outreach to women decline for large size MFIs indicating practice of mission drift as MFIs getting larger and larger.

Chapter 5: Conclusion and Recommendations

5.1. Conclusion

This study has treated the mission drift of MFIs in Ethiopia. It appears that that microfinance industry in Ethiopia is seriously considering attaining self-sufficiency without of course leaving its rural orientation and serving the poor. The analysis shows that the modest commercial orientation in the country is governed by self-sufficiency motives and profitability appears to be positively related with average loan size as there is monotonous increase in average loan size amount. The increase is insignificant as the maximum and minimum loan amounts disbursed happen to be less than USD 18 and USD 965, respectively. Without further detailed analysis it seems that the Ethiopian MFIs are not drifting from their main mission of poverty reduction. Another main consideration is the percent of women borrowers which has increased rather than decrease with modest commercial orientation the Ethiopian MFIs display. Overall results of this study confirm the findings of the few of previous studies discussed in the preceding sections.

This study modestly attempted to examine one of the important research topics in microfinance. Considering the intensity of econometrics associated with the study and the further disaggregated data to be obtained through primary research which is quite time consuming and requires substantial resource outlays, it is apparent that this thesis should be considered with precaution. It strongly commendable to initiate further in depth researches on the subject of mission drift of MFIs in Ethiopia.

5.2. Recommendation

Based on the detail analysis made by the researches, the following are some of the recommendation areas. To be specific, the researcher has classified in three:

Scholars/Researchers

It is reiterated that comprehensive study of mission drift needs to be undertaken whether to fully and unambiguously verify whether Ethiopian MFIs are departing from their original mission of poverty alleviation and focusing more on their sustainability or not.

Government:

NBE is the apex body that governs all financial institutes in Ethiopia. As its responsibility, it would better work closely with MFIs in the country. As stated limitation section of this research paper, it is very difficult to get data of MFIs. As such, the bank better follow up and collect relevant data so that interested body can do in depth research on this specific matter. In addition, it is highly recommendable that government sponsor in-depth research regarding the mission drift of MF in the country. In turn, the availability of appropriate and sufficient data enhances the designing of appropriate policy.

MFIs:

The researchers also would like to recommend to the MFIs. They better look back to how and what they are doing. They better evaluate their performance in terms of the original intent of micro finance, which is serving the poor with small loan size. Specially, AEMFI is in appropriate position to do such important research and forward to both the policy makers and the MFIs themselves.

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